

## FORECAST HIGHLIGHTS

### 2013-2033

Since the beginning of the century, the commercial air carrier industry has suffered several major shocks that have led to reduced demand for air travel. These shocks include the terror attacks of September 11, skyrocketing prices for fuel, debt restructuring in Europe and the United States (U.S.), and a global recession. To manage this period of extreme volatility, air carriers have fine-tuned their business models with the aim of minimizing financial losses by lowering operating costs, eliminating unprofitable routes and grounding older, less fuel efficient aircraft. To increase operating revenues, carriers have initiated new services that customers are willing to purchase. Carriers have also started charging separately for services that were historically bundled in the price of a ticket. The capacity discipline exhibited by carriers and their focus on additional revenue streams bolstered the industry to profitability in 2012 for the third consecutive year. Going into the next decade, there is cautious optimism that the industry has been transformed from that of a boom-to-bust cycle to one of sustainable profits.

As the economy recovers from the most serious economic downturn and slow recovery in recent history, aviation will continue to grow over the long run. Fundamentally, demand for aviation is driven by economic activity. As the economy returns to growth, so will aviation. The 2013 FAA forecast calls for U.S. carrier passenger growth over the next 20 years to average 2.2 percent per year, compared to last year's forecast growth of 2.6 percent per year. After another year of slow or no growth this year, growth over the next five years will be slightly higher than the long run rate as we assume the U.S. economy grows at a faster rate. This delayed trajectory represents the downward adjustments of the overall economy, here in the U.S. and abroad, and of the aviation sector response. One of the many factors influencing the delayed recovery is the uncertainty that surrounds the U.S. and European economies. The latter, primarily those belonging to the Euro area, have been hit hard by the pressure for fiscal austerity. Combined with the slow pace of these economies, debt restructuring pulled the European economy into recession in early 2012, where it continues to languish today. This has not helped the pace of U.S. economic growth given the importance of its trade with Europe. Despite this and the ambiguity surrounding its own fiscal imbalances, the U.S. economy has managed to avoid a double dip recession and trudges along the path of slow recovery.

System capacity in available seat miles (ASMs) – the overall yardstick for how busy aviation is both domestically and internationally – is projected to shrink by 0.1 percent this year after posting a 0.1 percent increase in 2012; it will then grow at an average annual rate of 2.9 percent through 2033. In the domestic market, capacity growth hovers around zero for the second year in a row. Domestic capacity is projected to grow at an average annual rate of 2.1 percent for the remainder of the forecast period. Domestic mainline carrier capacity will not increase in 2013 after increasing 0.7 percent in 2012. For the regional carriers, domestic capacity growth is also projected to be flat in 2013 after declining 4.3 percent in 2012. Commercial air carrier domestic revenue passenger miles (RPMs) are forecast to increase 0.7 percent in 2013, and then grow at an average of 2.2 percent per year through 2033; domestic enplanements in 2013 will decrease 0.1 percent, and then grow at an average annual rate of 2.0 percent for the remainder of the forecast.

The average size of domestic aircraft is expected to increase by 0.4 seats in FY 2013 to 124.3 seats. Average seats per aircraft for mainline carriers are projected to stay relatively flat as network carriers<sup>1</sup> continue to reconfigure their domestic fleets. While demand for 70-90 seat aircraft continues to increase, we expect the number of 50 seat regional jets in service to fall, increasing the average regional aircraft size in 2013 by 0.5 seats to 57.7 seats per mile. Passenger trip length in domestic markets will increase by 7.2 miles during the same period.

Although the slow growth of the U.S. economy and the European recession has dampened the near term prospects for general aviation, the long-term outlook remains favorable. We see growth in business aviation demand over the long term driven by a growing U.S. and world economy especially in the turbo jet, turboprop and turbine rotorcraft markets. As the fleet grows, the number of general aviation hours flown is projected to increase an average of 1.5 percent a year through 2033.

The global economy is facing a prospect of slow growth in 2013 with continued recession in the first part of the year in Europe which has slowed the demand for air travel. Profitability for U.S. carriers will hinge on a stable environment for fuel prices, an increase in demand for corporate air travel, maintaining the ability to pass along fare increases to leisure travelers, and the continual generation of ancillary revenues. To navigate this volatile operating environment, mainline carriers will continue to drive down costs by better matching flight frequencies and/or aircraft gauge with demand, delaying deliveries of newer aircraft and/or grounding older aircraft, along with pressuring regional affiliates to accept lower fees for contract flying. Over the long term, we see a competitive and profitable aviation industry characterized by increasing demand for air travel and airfares growing more slowly than inflation, reflecting over the long term a growing U.S. economy.

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<sup>1</sup> Alaska Airlines, American Airlines, United-Continental Airlines, Delta Airlines, and U.S. Airways.